

**REPORT OF THE AUDIT OF THE
HARLAN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HARLAN COUNTY SHERIFF

**For The Year Ended
December 31, 2007**

The Auditor of Public Accounts has completed the Harlan County Sheriff's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$329,444 from the prior year, resulting in excess fees of \$740,505 as of December 31, 2007. Revenues increased by \$324,592 from the prior year and expenditures decreased by \$4,852.

Report Comment:

- The Sheriff's Office Has A Lack Of Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
The Honorable Marvin J. Lipfird, Harlan County Sheriff
Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Harlan County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2009 on our consideration of the Harlan County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
The Honorable Marvin J. Lipfird, Harlan County Sheriff
Members of the Harlan County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Has A Lack Of Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Harlan County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

January 16, 2009

HARLAN COUNTY
MARVIN J. LIPFIRD, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

Federal Grants		\$ 7,040
State Fees For Services:		
Finance and Administration Cabinet	\$ 127,153	
Cabinet For Health And Family Services	<u>3,080</u>	130,233
Fiscal Court		74,504
County Clerk - Delinquent Taxes		4,931
Harlan County Board Of Education		37,138
Commission On Taxes Collected		394,765
Fees Collected For Services:		
Conveying Prisoners	16,951	
Auto Inspections	9,987	
Accident and Police Reports	163	
Serving Papers	57,829	
Carrying Concealed Deadly Weapon Permits	4,480	
Reimbursed School Fuel	153	
Miscellaneous	<u>1,154</u>	90,717
Other:		
Sheriff's Cost and Advertising	6,555	
Sheriff's 11% Penalty Fee on Tax	<u>73,417</u>	79,972
Interest Earned		<u>10,977</u>
Total Revenues		<u>830,277</u>

Expenditures

Operating Expenditures:
Materials and Supplies-
Uniforms
Bank Charges

800
60

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY
MARVIN J. LIPFIRD, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2007
(Continued)

Expenditures (Continued)

Operating Expenditures:

Other Charges-

Convention and Travel	\$ 3,686
Training	6,988
Postage	287
Miscellaneous	<u>3,446</u>

Total Expenditures	<u>\$ 15,267</u>
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Net Revenues	815,010
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Less: Statutory Maximum	<u>73,658</u>
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Excess Fees	741,352
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Less: Training Incentive Benefit	<u>847</u>
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Excess Fees Due County for 2007	740,505
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Payments to Fiscal Court - Monthly	<u>740,005</u>
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Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 500</u></u>
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The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer on a monthly basis.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Harlan County Sheriff participates in a fee pooling system with the fiscal court. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. Funds are then paid to the County Treasurer on a monthly basis. Invoices are submitted to the County Treasurer to document operating expenses. The County Treasurer pays almost all operating expenses for the fee official.

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Harlan County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Harlan County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 4. Drug Account

The Sheriff maintained a drug account during calendar year 2007. The drug account had a beginning balance of \$0 as of January 1, 2007. The Sheriff received \$48,403 transferred from the former Sheriff, subsequent reimbursements of \$500 from the Harlan City Police Department, and \$78,997 from the Evarts City Police Department for funds donated to them by the former Sheriff. Other receipts during the year totaled \$29,418, including \$2,368 of interest income. Disbursements during the year totaled \$98,755, which included a \$500 donation that was subsequently returned. This resulted in an ending fund balance of \$59,063 at December 31, 2007, which is not available as excess fees.

Note 5. U.S. Army Corp of Engineers

The Harlan County Sheriff's Department entered into an agreement with the U.S. Army Corp of Engineers for the period beginning May 25, 2007 and ending September 3, 2007. The purpose of the grant is to provide law enforcement services at the Martins Fork Lake in Harlan County, Kentucky. The Sheriff received reimbursements of \$7,040 during the calendar year for salary reimbursements.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
The Honorable Marvin J. Lipfird, Harlan County Sheriff
Members of the Harlan County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Harlan County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated January 16, 2009. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Harlan County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Has A Lack Of Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Harlan County Sheriff's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Harlan County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Harlan County Fiscal Court, and the Department For Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 16, 2009

COMMENT AND RECOMMENDATION

HARLAN COUNTY
MARVIN J. LIPFIRD, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2007

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Has A Lack Of Segregation Of Duties

A segregation of duties over various accounting functions, such as opening mail, recording cash, preparing bank deposits, writing checks, posting transactions to ledgers, reconciling bank records to the ledgers, and preparing monthly reports or the implementation of compensating controls when limited by office staff is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

A lack of adequate segregation of duties exists over all accounting functions. One employee is responsible for opening mail, recording cash, preparing and making daily bank deposits, writing disbursement checks, posting to ledgers, reconciling bank records to the receipt and disbursement ledgers, and preparing monthly financial reports.

A limited budget places restrictions on the number of employees the Sheriff can hire. When faced with limited staff, strong compensating controls should be in place to offset the lack of segregation of duties.

Lack of oversight could result in the misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government, which could occur but go undetected.

To adequately protect against misappropriation of assets and /or inaccurate financial reporting, the Sheriff should separate the duties involving the opening of mail, depositing of cash, disbursing of cash, posting of transactions to the ledgers, reconciling of bank records to the receipts and disbursements ledger, and preparing the monthly financial reports. If, due to a limited staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. If the Sheriff does implement compensating controls, these should be documented on the appropriate source document.

Sheriff's Response: We have since implemented procedures to correct the segregation matters as was stated to the previous auditor in July 2008.

